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SUBJECT: AMBASSADOR DISCUSSES EPC, CO-FINANCING, BUSINESS
DISPUTES, TRADE OPPORTUNITIES WITH MINISTER OF FINANCE

¶1. (SBU) The Ambassador met August 8 with Minister of Finance Samir Sharifov to discuss a wide range of economic issues, including prospective dates this fall for the next meeting of the U.S.-Azerbaijan Economic Partnership Commission (EPC) and co-financing of assistance projects. Ambassador also took the opportunity to congratulate Minister Sharifov on Moody's recent decision to upgrade its outlook on Azerbaijan's Baal government debt issuer ratings from stable to positive.

Economic Partnership Commission: November a Possibility

¶2. (SBU) Following input from EEB, the Ambassador suggested to Sharifov that the U.S.-Azerbaijan EPC might next meet in Washington for one day during the period of November 10-21. Sharifov agreed in principle, noting that, after the October 15 Azerbaijani presidential election, he would have to be officially re-appointed to his position, "assuming that President Aliyev is re-elected." The Ambassador asked Sharifov to continue work on the EPC joint communique and agenda. The Azerbaijani side noted the Ministry would soon have proposals for an updated version of the agenda, which would include discussion of Jackson-Vanik, Generalized System of Preferences (GSP) and a global economic briefing by U.S. experts. Azerbaijan will also work on the joint communique, Sharifov said.

Co-Financing: Close, but Not Yet

¶3. (SBU) On a related note, the Ambassador asked Minister Sharifov to expedite U.S.-Azerbaijan efforts to conclude agreements on co-financing of assistant projects. The Ambassador noted that USAID reports that one project with the National Bank of Azerbaijan has now been agreed on and is awaiting signature. Three projects with the Ministry of Economic Development (MOED) and two projects in the field of democracy and governance are still being negotiated, with the GOAJ asking to clarify and expand its role in co-managing projects that it would co-finance. USAID indicated that such an arrangement might be possible, but would need to be carefully crafted in order to be consistent with overarching USAID administrative guidelines on project implementation. Sharifov, in turn, said that "some difficulties" with co-financing remain; finances for the most part are not the problem, he explained, but implementation may need to be revisited. Sharifov requested additional meetings with USAID to resolve the outstanding issues. USAID will follow up with the Ministry of Finance and MOED.

Trade and Investment

¶4. (SBU) The Ambassador delivered to Minister Sharifov a letter from U.S. agricultural firm Cargill that answered questions the Minister had earlier raised regarding outstanding debts. Cargill incurred debts of USD 7.7 million in 1996, when the GOAJ, through the state-owned "AgroIncom" firm, defaulted on a portion of a cotton contract. The GOAJ subsequently requested clarification that a) the debt legally is classified as government debt, b) the debt officially was incurred by the government, and c) the GOAJ is responsible for this debt. Sharifov accepted the letter and noted that his ministry had not rejected the claim, and would further investigate. Sharifov also noted that Cargill had recently expressed interest in re-entering Azerbaijan's market, perhaps through regional grain trade. (Note: Cargill has sold rights to this debt to a Hong Kong-based firm, but retains a percentage interest in any monies recovered.)

¶5. (SBU) The Ambassador also raised Bechtel's bid to construct a modern east-west highway, connecting Azerbaijan and Georgia. Sharifov expressed interest in the project, noting that "money could be made available" to support it. He added, however, that many infrastructure projects are now vying for attention, such as the north-south highway project, sewage treatment, subway expansion and telecommunications upgrades.

Anti-Money Laundering

¶6. (SBU) Sharifov acknowledged receiving the Embassy's letter on Azerbaijan's pending Anti-Money Laundering legislation. Ambassador noted that she had spoken to a conference on this

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topic a few weeks earlier, and had pointed out that some provisions of the new draft law are not in compliance with the Financial Action Task Force (FATF). Sharifov said that the draft law is in parliament, having passed a first reading, and could still be amended. The Minister promised to "talk to lawyers" to resolve the non-FATF compliant provisions. The Ambassador said that the Embassy's Resident Legal Advisor would be in contact with the Ministry. Embassy RLA subsequently passed Department of Justice comments to the Ministry's International Affairs Department.

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